Privatization Study
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Disadvantages of Privatization

- Different priorities: public sector provides customer service v. profit-making for the private sector.

- Without a complete and concise contract, the public agency can lose control of the contract, the facility and service.

- Loss of transparency.

- Public oversight can become more difficult.

- “Run to fail” mentality by the private company.

- Costs escalate due to unanticipated increase in materials = change orders.

- Hidden indirect cost, i.e. “true up fee.”

- Should the contract fail, it’s costly to return to public service (i.e., employee salaries and benefits, equipment in need of repair or even failure, etc.) that may also result in interruption in services.

- Unexpected change in mandates and regulations.

- Private company terminates service before the end of the contract due to bankruptcy, change of ownership, loss of profits, etc., can also result in loss of vital services with an unprepared public agency. This is especially true in long-term contracts of 25, 50 or 75 years.

- If the scope of services doesn’t exactly define work, benchmarks, requirements, and outcomes, there could be increased costs, and projects that are incomplete or do not meet the needs of the public agency. Contracts must be written so that services or projects are quantified, effective and outcomes can be measured.

- Most contracts are written to meet the “minimum standards” of performance.

- Maximizing profits for the private company could result in cutting corners and products of lesser quality and lack of maintenance in equipment.

- Long-term contracts can be based on “fuzzy math” due to estimates that can’t be predicted so far into the future.

- Public employees’ salaries and benefits can be severely impacted or diminished resulting in lesser-qualified staff that will mean a cut in customer service and high turnover in employees.

- Reduction in staffing, hiring lesser-qualified staff or failure to provide dedicated staff with adequate time to perform the work will reduce the cost to the private company and negatively impact customer services.

- Lack of dedicated, knowledgeable staff and management to provide oversight of contract.

- Municipalities are ill suited and unprepared to negotiate with private companies.

- Contracts can be awarded for political reasons rather than on need or merit.

- Loss of the common good in decisions made by the contractor.

- Private companies are often not held to the same standard as the public sector.

- Maintenance of buildings, equipment or services are delayed or eliminated altogether to save money.

- Needed materials and supplies are not purchased as needed or eliminated altogether to save money.

- Increased costs in the rates and/or fees to public when contract changes are made. Costs will always be passed on to ratepayer.

- Possible threat to public safety if a private company doesn’t perform service properly.